

## 3. Customer Engagement

### 3.1 Introduction

This chapter outlines Powerlink's customer engagement activities and how they influenced and improved decision-making in the preparation of our 2023-27 Revenue Proposal.

#### Key highlights:

- We are the first network business to co-design our engagement approach with customers and stakeholders. This enabled customers to directly shape the scope, sequencing, techniques and evaluation of our engagement.
- We established a Revenue Proposal Reference Group (RPRG), a subset of our wider business-as-usual Customer Panel, to engage more intensively and deeply on key aspects of our Revenue Proposal and report back to the wider Customer Panel.
- We developed and published a draft Revenue Proposal in September 2020, after encouragement to do so from our Customer Panel and the Australian Energy Regulator's (AER's) Consumer Challenge Panel (CCP23).
- Engagement directly influenced key elements of our Revenue Proposal. In particular, we have responded to feedback and customer concerns about affordability. This includes:
  - **operating expenditure** – we will target no real growth in total operating expenditure compared to actuals/forecast in the current regulatory period. To achieve this target we have proposed, in combination, a higher than industry average productivity factor of 0.5% and have not pursued any step changes;
  - **capital expenditure** – we propose a 3% real reduction in capital expenditure compared to actuals/forecasts in the current regulatory period. We have also decided not to proceed with contingent reinvestment projects after feedback from customers and the AER; and
  - **depreciation** – we proposed a way to smooth the impact on customers arising from our change in depreciation tracking method (refer Chapter 10 Depreciation).
- The input on the above key elements contributed to our proposed reduction in Maximum Allowed Revenue (MAR) of \$587.4m (15%) compared with our allowed MAR for the 2018-22 regulatory period. This results in a drop of 11% in average transmission prices in the first year of the next regulatory period (2022/23), and for price growth over the remainder of the regulatory period to be in line with inflation. For average residential and small business customers, this represents an estimated saving in the first year of \$13 and \$23, respectively. This is on the basis of assumed tariffs and consumption<sup>1</sup>.

### 3.2 Capable of acceptance

#### 3.2.1 Engagement goal

Our engagement approach for the Revenue Proposal is driven by our overarching goal to deliver a Revenue Proposal that is capable of acceptance by our customers, the AER and Powerlink. This goal targeted acceptance of our Revenue Proposal as an overall package by relevant stakeholders *at the time we lodged our Revenue Proposal* with the AER in January 2021. This is an important distinction from what some stakeholders may have assumed, which is capable of acceptance by the end of the AER's 15-month formal review process.

To achieve this goal we recognised the need to engage early, deeply on key issues and often. Early engagement allowed us to share our initial thinking, enabled customer input to shape this and for both parties to listen, learn and grow from the interactions. Deeper engagement on key issues of importance to customers, the AER or our business created greater awareness and understanding of the issues, trade-offs and the consequences of taking various courses of action. The frequency with which we met provided regular opportunities for us to demonstrate our commitment to a 'no surprises' approach to engagement, to build rapport and trust, and to show how we operate our business.

Our engagement goal and overall approach is outlined in Appendix 3.01 Engagement Plan.

<sup>1</sup> The transmission component of electricity bills is based on information from the Australian Energy Market Commission (AEMC) Electricity Price Trends Report, December 2020. Assumed residential consumption is based on the Queensland Competition Authority's (QCA) annual Tariff 11 (residential) median energy usage of 4,061kWh p.a. Assumed small business consumption is based on the QCA's annual Tariff 20 (small business) median energy usage of 6,831kWh p.a.

### **Draft Revenue Proposal**

We recognised the need to adapt our engagement approach in light of stakeholder feedback, particularly where it would provide meaningful value to our customers. As it turns out, a key milestone in our engagement was one that was not on our plan at the start. That is, the development and publication of our draft Revenue Proposal in September 2020.

A draft Revenue Proposal is not a formal requirement of the National Electricity Rules (the Rules) and we originally did not plan to release one. However, based on constructive engagement with our customers and the AER during 2020, we decided to prepare and publish a draft version of our Revenue Proposal for input in September 2020.

We considered that publication of our Revenue Proposal in draft form would further promote the transparency of our engagement and would enable our stakeholders to see in 'black and white' where our business was heading, why and how we had responded to issues raised to date.

While we have actively encouraged input and participation from our customers, the AER and CCP23 every step of the way, the draft Revenue Proposal provided another, perhaps more formal opportunity for stakeholders to provide feedback. In hindsight, we consider that this was an important step (albeit unplanned and challenging to deliver at the time), which demonstrated that we were serious about developing a Revenue Proposal that was capable of acceptance by customers, the AER and Powerlink at the time we lodged our Revenue Proposal in January 2021. It also reinforced our commitment to taking a 'no surprises' approach to our engagement.

Our draft Revenue Proposal is published on our website<sup>2</sup> and we have included submissions received in Appendix 3.02 Submissions on our draft Revenue Proposal<sup>3</sup>.

### **3.2.2 Capable of acceptance criteria**

In our draft Revenue Proposal, we proposed to utilise the criteria outlined in Table 3.1 from CCP24<sup>4</sup> in the context of its advice to the AER on another regulatory determination process. This was intended to help customers and the AER assess whether our Revenue Proposal was capable of acceptance.

**Table 3.1:** CCP24 capable of acceptance criteria

| Criteria  |
|---|
| Demonstrated customer support   |
| Engagement was meaningful and the business was responsive to feedback   |
| A clear business narrative was provided   |
| Affordability was considered and addressed  |
| The business assessed options available to it and sought to provide value to customers                                    |
| The Revenue Proposal is reasonable comparative to past performance and Transmission Network Service Provider (TNSP) peers |
| Follows relevant AER guidelines and regulatory models (AER to assess)   |
| Forecast capital and operating expenditure is prudent and efficient (AER to assess)                                       |

After further engagement with our Customer Panel, the AER's CCP for our revenue determination process (sub-panel CCP23) and the AER, we have decided to use the Framework for Considering Consumer Engagement as the criteria for capable of acceptance. This framework was published in the AER's September 2020 Draft Decisions for the Victorian Distribution Network Service Providers (DNSPs)<sup>5</sup>.

We have assessed ourselves against the framework, which is set out in Section 3.2.3. We also asked our Customer Panel to provide an assessment, which is discussed in Section 3.2.4 and in Appendix 3.03 Customer Panel Statement on Engagement. We encourage and welcome an assessment from the AER and AER's CCP23 as part of their consideration of our Revenue Proposal.

<sup>2</sup> Draft Revenue Proposal, Powerlink, <https://www.powerlink.com.au/2023-27-regulatory-period>.

<sup>3</sup> Submissions were received from our Customer Panel, AER CCP23 and Shell.

<sup>4</sup> CCP24 was the relevant CCP for Australian Gas Networks determination. Refer to advice to the AER on Australian Gas Networks Final Plan, CCP24, August 2020.

<sup>5</sup> Overview, Section 3, Table 7 in the Draft Decisions for AusNet Services, Jemena, United Energy, CitiPower and Powercor, Australian Energy Regulator, September 2020.

### 3.2.3 Self-assessment against capable of acceptance criteria

The following table outlines our self-assessment against the capable of acceptance criteria. For clarification, the criteria and example columns set out in Table 3.2 were used by the AER in the context of its Draft Decisions for other network service providers<sup>6</sup>.

Table 3.2: Framework for Considering Consumer Engagement criteria

| Criteria                 | Examples of how this could be assessed  | Powerlink self-assessment against criteria   |
|--------------------------|---|--|
| Nature of engagement     | <ul style="list-style-type: none"> <li>Customers partner in forming the proposal rather than asked for feedback on the proposal.</li> <li>Relevant skills and experience of the customers, representatives and advocates.</li> <li>Customers provided with impartial support to engage with energy sector issues.</li> <li>Sincerity of engagement with customers.</li> <li>Independence of customers and their funding.</li> <li>Multiple channels used to engage with a range of customers across Powerlink's customer base.</li> </ul> | <ul style="list-style-type: none"> <li>Co-design approach to set engagement approach, scope, techniques and evaluation (refer Section 3.3.3).</li> <li>Highly experienced Customer Panel, with many involved since 2015. Several are also members of the AER's Consumer Challenge Panel (refer Section 3.5).</li> <li>Feedback on engagement confirms it has been genuine, open and authentic (refer Section 3.9).</li> <li>Wide range of engagement channels used including Customer Panel meetings, RPRG meetings, large forums, webinars, deep dives, one-on-one briefings, social media and website (refer sections 3.6 and 3.7).</li> <li>Terms of Reference for the RPRG, included in Appendix 3.04, outlined funding to members to undertake independent research and outlined non-financial support mechanisms.</li> </ul>   |
| Breadth and depth        | <ul style="list-style-type: none"> <li>Clear identification of topics for engagement and how these will feed into the Revenue Proposal.</li> <li>Customers consulted on broad range of topics.</li> <li>Customers able to influence topics for engagement.</li> <li>Customers encouraged to test the assumptions and strategies underpinning the proposal.</li> <li>Customers were able to access and resource independent research and engagement.</li> </ul>  | <ul style="list-style-type: none"> <li>Clear engagement scope co-designed with customers up-front, on the basis of the impact on MAR (refer Section 3.4).</li> <li>A calendar of potential topics and dates for engagement was provided at the beginning of the RPRG process.</li> <li>Engagement scope was regularly updated based on customer feedback. Demonstrated by several updates to the Engagement Plan (refer to Appendix 3.01 and table in Section 3.4).</li> <li>Customers were encouraged to provide input and feedback during and outside meetings.</li> <li>Customer Panel members stated<sup>(1)</sup>: <ul style="list-style-type: none"> <li>The panel are unanimous in our view that Powerlink's engagement with us has been genuine, consistent and deep. We also acknowledge the consistent high-level efforts of Powerlink staff to ensure that they engage meaningfully with us.</li> </ul> </li> <li>Two Customer Panel meetings were organised without Powerlink representatives present to allow frank discussion on the draft Revenue Proposal, engagement evaluation and capable of acceptance criteria.</li> <li>With regard to customers being able to access and resource independent research and engagement, refer to the comment in the table above on the Terms of Reference for the RPRG.</li> </ul> |
| Clearly evidenced impact | <ul style="list-style-type: none"> <li>Proposal clearly tied to expressed views of customers.</li> <li>High level business engagement (e.g. customers given access to Powerlink's Chief Executive and/or Board).</li> <li>Powerlink has responded to customer views rather than just recording them.</li> <li>Impact of engagement can be clearly identified.</li> <li>Submissions on proposal show customers feel the impact is consistent with their expectations.</li> </ul>   | <ul style="list-style-type: none"> <li>Influence of engagement clearly visible through changes in key aspects of the Revenue Proposal over the progressive development of five sets of expenditure and revenue forecasts (refer Section 3.8), and in our Revenue Proposal.</li> <li>Active involvement in engagement activities by our Chair, Board, Chief Executive and Executive Team. Customer feedback was communicated regularly to the Board and Executive Team to inform decision-making.</li> <li>Detailed minutes of Customer Panel and RPRG meetings demonstrate publicly how feedback has influenced decision-making (refer Section 3.8).</li> <li>In their Statement on Engagement<sup>(2)</sup> our Customer Panel said there were a number of cases where they felt they influenced the Revenue Proposal and that their level of influence was high, relative to other engagement processes in the industry.</li> </ul>  |

<sup>6</sup> Ibid.

| Criteria    | Examples of how this could be assessed   | Powerlink self-assessment against criteria  |
|-------------|--|---|
| Proof point | <ul style="list-style-type: none"> <li>• Reasonable opex and capex allowances proposed, for example:               <ul style="list-style-type: none"> <li>○ In line with, or lower than, historical expenditure.</li> <li>○ In line with, or lower than, the AER's top-down analysis of appropriate expenditure.</li> <li>○ If not in line with top-down, can be explained through bottom-up category analysis.</li> </ul> </li> </ul> | <ul style="list-style-type: none"> <li>• We propose a 3% real reduction in capital expenditure compared to actual/forecast in the current regulatory period (refer Chapter 5 Forecast Capital Expenditure).</li> <li>• We propose a target of no real growth in underlying operating expenditure compared to actual/forecast in the current period for 2023-27 regulatory period (refer Chapter 6 Forecast Operating Expenditure).</li> <li>• Our Regulatory Asset Base (RAB) is reducing in both real and nominal terms (refer Chapter 8 Regulatory Asset Base).</li> <li>• Our proposed MAR is 15% lower than in the current regulatory period.</li> <li>• We forecast a reduction in the indicative transmission price in the first year of the next regulatory period of about 11% in nominal terms. Average price growth is expected to remain within inflation for the remainder of the regulatory period (refer Chapter 11 Maximum Allowed Revenue and Price Impact).</li> </ul> |

(1) Appendix 3.03 Customer Panel Statement on Engagement.

(2) Appendix 3.02 Submissions on our draft Revenue Proposal.

### 3.2.4 Customer assessment against capable of acceptance criteria

We strongly encouraged our Customer Panel to provide an assessment of our engagement approach and whether our Revenue Proposal is capable of acceptance, based upon the engagement we undertook in the development of our proposal and the information made available to them over that time. This direct evaluation from our Customer Panel will help us identify where our engagement has been successful and where we could improve. It is also important feedback that should be considered by the AER and the AER's CCP23 as part of their assessment of our Revenue Proposal.

In December 2020, our Customer Panel met (without Powerlink staff present) to discuss the concept of capable of acceptance and to evaluate our engagement approach.

The majority of panel members were of the view that our Revenue Proposal was reasonable. However, they also felt they did not have the skills or grounding to be able to make a formal judgement about whether the proposal is capable of acceptance.

Members commented that Powerlink should have clarified what capable of acceptance meant with the AER first, so that panel members had a clearer target to judge against. Members also noted that the AER is still in the process of developing its own detailed understanding of what capable of acceptance means. In addition, the Panel considered that a capable of acceptance judgement could be made at a later stage, potentially after a review of the Revenue Proposal or the AER's Draft Decision.

We appreciate that it may be difficult for customers to state unconditionally whether our Revenue Proposal is capable of acceptance prior to its lodgement. We intend to undertake further engagement post-lodgement in response to this feedback to try to achieve our overarching goal to deliver a Revenue Proposal that is capable of acceptance by our customers, the AER and Powerlink.

The Customer Panel's Statement on Engagement is included in full in Appendix 3.03.

## 3.3 Our engagement approach

### 3.3.1 Overview

We are committed to genuine and timely engagement to inform our decision-making as part of our normal business operations. It is fundamental to the way we do business and has led to better outcomes for our customers and stakeholders. This aligns with our commitment to the Energy Charter principles<sup>7</sup>, in particular Principle One - *We will put customers at the centre of our business* and Principle Two - *We will improve energy affordability for customers*.

As our operations extend across Queensland, we engage with a diverse range of stakeholders in the normal course of business. This includes our customers, landholders, environmental and community groups, government agencies and industry bodies.

<sup>7</sup> The Energy Charter, <https://www.theenergycharter.com.au>.

Our engagement is designed to create a shared understanding of our business decisions and the trade-offs involved in making them (e.g. cost, reliability). Some of the key avenues through which we engage as part of business-as-usual<sup>8</sup> activities include:

- our Customer Panel, which met regularly over the past five years and provides input on our activities to inform our decision-making across a broad range of areas (e.g. on Regulatory Investment Test for Transmission (RIT-T) assessments, transmission pricing, our 30 year Network Vision and our Information Technology Benefits Realisation Framework);
- our annual Transmission Network Forum, which is our flagship engagement activity and typically involves more than 200 stakeholders and customers;
- targeted webinars and workshops on RIT-T assessments, regional developments and demand and energy forecasts;
- dedicated landholder engagement through our landholder relations team to ensure land access and engagement practices are aligned with expectations; and
- regular briefings to local governments across Queensland about our operations in their areas.

We apply an open and transparent approach to our engagement with customers and the AER in the normal course of business. This approach has naturally extended to the preparation of our Revenue Proposal.

### 3.3.2 Revenue Proposal engagement key principles

To support engagement on our Revenue Proposal, we established a set of key engagement principles:

- **Active Engagement:** Actively involve customers and stakeholders in developing and refining our engagement approach.
- **Appropriate Influence:** Engage at the appropriate level of the International Association for Public Participation (IAP2) Spectrum so that customer and stakeholder feedback appropriately influences decisions.
- **Plan Ahead:** Communicate timings for key engagement activities well in advance to maximise participation by customers and stakeholders.
- **Efficient Scope:** Ensure scope leads to efficient engagement by discussing the elements of Powerlink's Revenue Proposal that have the greatest ability to be influenced and a significant impact on MAR or improvement of outcomes.
- **Appropriate Resourcing:** Provide education and funding support to allow customer representatives to undertake independent research and reviews if required.
- **Accessible Information:** Present information in a clear and accessible manner so that customers and stakeholders can meaningfully participate in engagement activities and provide informed feedback.
- **Demonstrate Impact:** Demonstrate how engagement has changed Powerlink's position throughout the process by regularly communicating with customers and stakeholders about how their feedback was taken into account.

### 3.3.3 Co-design approach

We are the first network business to co-design our Revenue Proposal engagement approach with our customers and stakeholders. We also invited the AER to participate in this process.

Customers, advocates and stakeholders collaborated with members of our Board, Executive Team and other staff at a co-design workshop in May 2019 to shape our:

- overarching engagement approach;
- engagement scope;
- engagement techniques;
- engagement sequencing;
- communications to support engagement; and
- engagement evaluation.

Following the workshop we prepared a draft Engagement Plan and circulated this to customers and workshop attendees for further input. Our Engagement Plan was published in September 2019, with minor updates between May and September 2020. A further updated version was published in December 2020 to reflect additional engagement undertaken and is included as Appendix 3.01.

<sup>8</sup> Stakeholder Engagement, Powerlink, <https://www.powerlink.com.au/stakeholder-engagement>.

### 3.3.4 Engagement approach key elements

Our engagement approach is built on four foundational elements, shown in Figure 3.1. These reflect feedback received from customers and stakeholders about what comprises successful engagement on a Revenue Proposal. We explain our approach to each element in the following sections.

Figure 3.1: Engagement foundational elements



#### ***Fit-for-purpose***

We used an engagement approach that aligns with our business, customer and stakeholder needs. We leveraged off business-as-usual engagement activities and worked closely with our existing Customer Panel, the AER and the AER's CCP23.

Since our Customer Panel was established in May 2015, we have worked closely with its members to improve their knowledge of the transmission industry, the regulatory framework and our operations. In return, our Customer Panel has played a primary role in influencing our Revenue Proposal given their long-standing involvement with our business.

After input from customers and stakeholders, we used an Expression of Interest process to form our RPRG, which comprises five members of our existing Customer Panel. This was in line with feedback from co-design workshop participants, whose preference was to not establish a negotiating panel separate to our existing Customer Panel.

This approach enabled us to engage in more detail, and more regularly, with a smaller, targeted group. Since its establishment in October 2019, the RPRG has considered and provided input on key aspects of our Revenue Proposal on an almost monthly basis and has met 10 times in total. Members of the RPRG also reported back on progress to the broader Customer Panel.

We also actively encouraged participation by the AER and AER's CCP23 in our engagement activities, such as Customer Panel and RPRG meetings, and our Transmission Network Forum.

#### ***Create a clear Business Narrative***

In response to customer and stakeholder feedback, we developed a Business Narrative document in January 2020 to provide broader context to our Revenue Proposal and assist customers (directly-connected and end-user representatives) and stakeholders (government and industry) to participate more effectively in our engagement activities. Our Business Narrative is included in Appendix 2.01.

Our Business Narrative included our long-term view about our operations, challenges and opportunities and how we plan to deliver better value for our customers. It was informed by a range of different internal and external plans and strategies, as well as our 30 year Network Vision.

Consistent with our Engagement Plan, we updated the Business Narrative twice. Our first update was in February 2020, to reflect the needs and priorities of our customers and stakeholders. We updated the Business Narrative a second time in April 2020 to reflect the impact of COVID-19 on our operating environment. While we have not updated the Business Narrative for our Revenue Proposal again, the information included in Chapter 2 Business and Operating Environment is intended to provide the latest information around needs and priorities.

#### ***Seek early involvement from the AER***

To achieve our engagement objective, we sought early involvement from the AER to provide input and feedback on key aspects of our Revenue Proposal.

We engaged initially with AER staff in May and June 2019 to discuss Powerlink's engagement approach and forecasting methodologies. We met monthly with AER staff from October 2019 to discuss the development of key aspects of our Revenue Proposal, and held more in-depth, issue specific meetings where needed. We also provided early versions of our models to the AER in August 2020 and September 2020 for review. We considered AER and AER CCP23 feedback on materials and models and adjusted where relevant.

We also engaged on a monthly basis with the AER's CCP23 and had open discussions about the progress of our engagement activities as well as any queries they had as a result. We regularly encouraged CCP23 input and participation.

AER staff and the CCP23 attended RPRG meetings and, where appropriate, responded to queries from RPRG members and Powerlink staff. The AER and AER CCP23's role in engagement is important as other customer and stakeholder representatives rely on their analysis to gain confidence on the more technical elements of a Revenue Proposal.

***Apply a transparent and rigorous approach***

We committed to, and applied, rigorous engagement protocols for our RPRG meetings, as outlined within our RPRG Terms of Reference<sup>9</sup>. We developed detailed minutes and a one page overview on each of our RPRG meetings. We sought input from attendees before publishing these materials on our website as final to ensure we accurately reflected their input.

We have demonstrated transparency in the development of our Revenue Proposal through publication and engagement on five separate rounds of forecasts of MAR, RAB, rate of return, operating expenditure, capital expenditure and expenditure incentive schemes, between December 2019 and November 2020. Each round of forecasts included details about changes since the previous forecast and we highlighted how customer and stakeholder feedback had influenced outcomes.

In December 2020 we provided an update on further progress and key outstanding matters. We also provided our Customer Panel, the AER and AER CCP23 with our updated final forecasts in January 2021 prior to lodgement of our Revenue Proposal with the AER.

## 3.4 Engagement scope

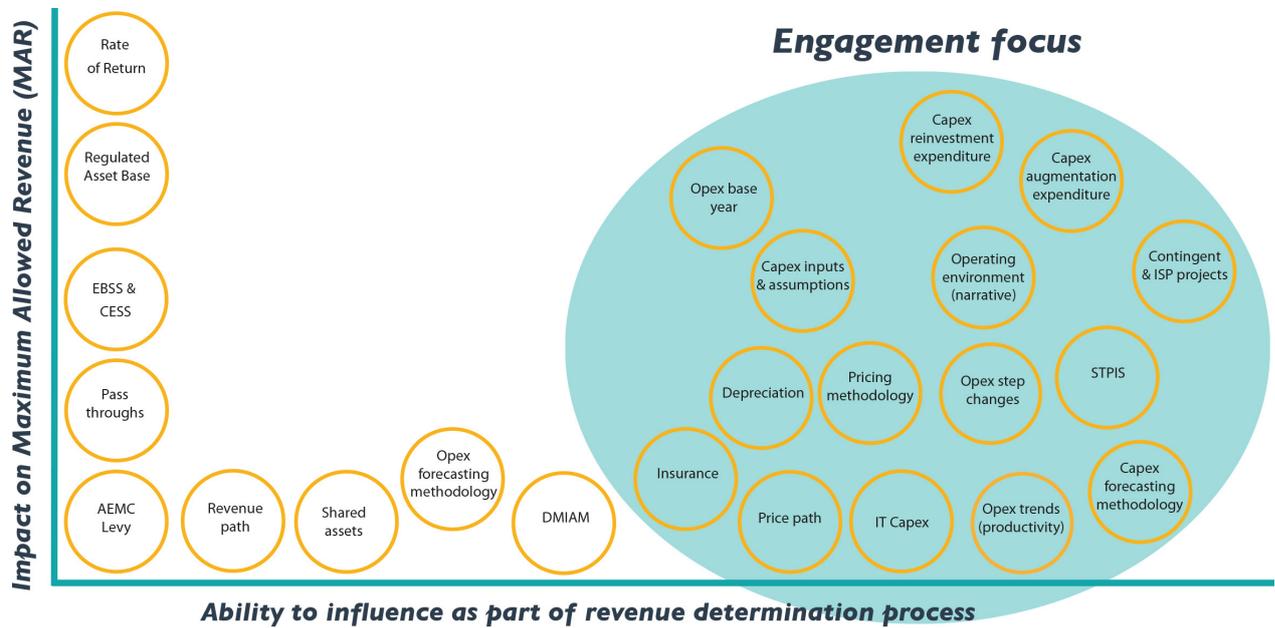
We understand that customer and stakeholder representatives are time poor and resource constrained. Providing a clear scope for engagement so they could appropriately allocate their time was vital to delivering a Revenue Proposal that is capable of acceptance.

During the co-design workshop in May 2019, participants plotted elements that they considered had the largest impact on revenue against the ability for each element to be influenced by engagement. This enabled efficient and focused engagement. We updated our engagement scope in September 2020 to reflect new engagement elements on insurance and the Demand Management Innovation Allowance Mechanism (DMIAM). Figure 3.2 consolidates the input from the workshop and subsequent scope of engagement for our 2023-27 Revenue Proposal.

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<sup>9</sup> Customer Panel, Powerlink, <https://www.powerlink.com.au/customer-panel>.

Figure 3.2: Engagement scope



Using the inputs from the co-design workshop and customer feedback, aspects of the Revenue Proposal were plotted against the relevant level of the IAP2 Spectrum<sup>10</sup>. This spectrum is designed to assist with the selection of the level of participation that defines the public's role in any community engagement program.

In Table 3.3 we compare our original Engagement Plan, published in September 2019, against the topics which we have engaged on by January 2021. This demonstrates how we have adjusted our engagement focus based on the relevance of topics and customer and stakeholder interest throughout the development of our Revenue Proposal.

<sup>10</sup> IAP2 Spectrum, International Association of Public Participation, 2018.

Table 3.3: Engagement scope against the IAP2 Spectrum

| Level of IAP2 Spectrum   | Timing   |   |
|--|--|---|
|  | Engagement scope as per Engagement Plan September 2019   | Engagement scope as at January 2021   |
| <b>Empower</b><br>To place the final decision-making in the hands of customers and stakeholders  | Nil  | Decision on whether our Revenue Proposal is capable of acceptance <sup>(1)</sup> .  |
| <b>Collaboration</b><br>To partner with customers to formulate alternatives and incorporate their advice into final decisions to the maximum extent possible     | Engagement approach.<br>Contingent and Integrated System Plan (ISP) projects.<br>Operating environment (Business Narrative).   | Engagement approach.<br>Operating environment (Business Narrative).<br>Contingent projects (including contingent reinvestment concept).<br>Depreciation tracking approach.<br>Capable of acceptance criteria.<br>Preliminary Positions and Forecasts Paper (PPFP) content.  |
| <b>Involve</b><br>To work directly with customers and stakeholders to ensure their concerns and aspirations are directly reflected in the alternatives developed | Capital expenditure – augmentation expenditure, reinvestment expenditure, forecasting methodology.<br>Operating expenditure – efficient base year, step changes.<br>Service Target Performance Incentive Scheme (STPIS).   | Insurance.<br>Capital expenditure – forecasting methodology.<br>Operating expenditure – efficient base year, step changes, productivity<br>STPIS – potential review of scheme and relevant years for setting targets.<br>Transmission Pricing Consultation/Proposed Pricing Methodology.<br>Cyber security.<br>Long-term revenue smoothing.<br>Publication of a draft Revenue Proposal.<br>Affordability – in the context of capital and operating expenditure forecasts. |
| <b>Consult</b><br>To obtain feedback on alternatives and draft proposals   | Capital expenditure – key inputs and assumptions, Information Technology.<br>Operating expenditure – forecasting methodology, trends (productivity).<br>Price and revenue path.<br>Pricing Methodology.<br>Australian Energy Market Commission (AEMC) Levy.<br>Depreciation. | ISP projects.<br>Capital expenditure – augmentation expenditure, reinvestment expenditure, key inputs and assumptions, Information Technology.<br>Inflation – impacts on revenue from different treatments of inflation.<br>AER Benchmarking.   |
| <b>Inform</b><br>To provide balanced information to keep customers and stakeholders informed   | Rate of return.<br>Efficiency Benefit Sharing Scheme (EBSS) and Capital Expenditure Sharing Scheme (CESS).<br>RAB.<br>Shared assets.<br>Pass throughs.   | Operating expenditure – forecasting methodology.<br>AEMC Levy.<br>Powerlink risk appetite.<br>Proposed rate of return.<br>EBSS and CESS.<br>RAB impacts.<br>Shared assets.<br>Pass throughs events.<br>COVID-19 potential impacts.  |

(1) We recognise the IAP2 spectrum definition of empower is to implement what customers decide. This inclusion is not to be read that the Final Decision on our Revenue Proposal is in the hands of customers, rather to indicate our intent to empower and encourage customers to make their own decision on capable of acceptance, which should be taken into account by the AER and ourselves.

### 3.5 Engagement participants

While deep engagement occurred with a range of customers and stakeholders, we also put significant effort into providing engagement opportunities to a wider range of stakeholders across Queensland.

Gaining participation from a broader range of stakeholders is challenging for a transmission business due to our less visible position in the supply chain i.e. as opposed to distribution businesses, which have a more direct customer-facing role. We were also conscious of the value proposition of dedicating resources and budget toward wide-scale engagement against stakeholder interest and understanding of a revenue determination process.

The key stakeholders and customers with whom we directly engaged on a regular basis are outlined in Table 3.4.

Table 3.4: Regular engagement participants

| Activity  | Members  |
|---|--|
| Customer Panel  | Aurizon<br>BHP<br>Council on the Ageing (COTA)<br>CS Energy<br>Commonwealth Scientific and Industrial Research Organisation (CSIRO)<br>Edify Energy<br>Energy Consumers Australia (ECA) (up to August 2020)<br>Energy Queensland<br>Energy Users Association of Australia (EUAA)<br>Queensland Farmers' Federation (QFF)<br>Queensland Resources Council (QRC)<br>Shell<br>St Vincent de Paul<br>Invitees: AER staff and AER CCP23 |
| Revenue Proposal Reference Group<br>(a sub-set of the Customer Panel) | CS Energy<br>EUAA<br>QFF<br>Shell<br>Energy Consumers Australia (up to June 2020)<br>COTA (from July 2020)<br>Invitees: AER staff and AER CCP23  |
| Regulatory  | AER staff and AER CCP23  |
| Government  | Queensland Treasury, Department of Energy and Public Works.  |

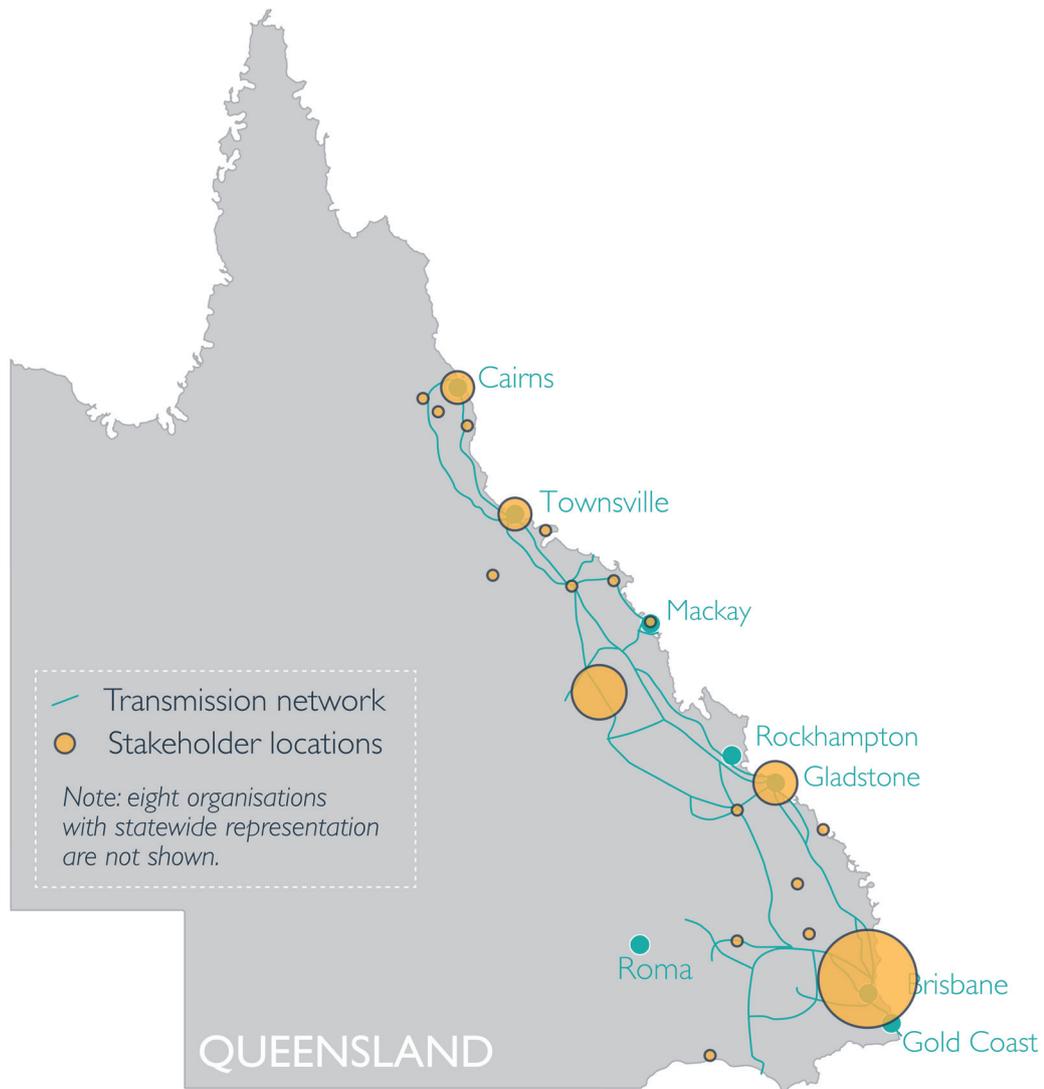
We also engaged with a wide range of customers and stakeholders, including across regional Queensland, to give further breadth to our engagement.

Key activities that we undertook to gain broader input and participation on our Revenue Proposal included:

- creating a master stakeholder list of more than 450 contacts to share key documents with, including our Preliminary Positions and Forecasts Paper (PPFP) and draft Revenue Proposal. These stakeholders were also invited to participate in Powerlink's Transmission Network Forum, webinars and other online forums;
- customers and stakeholders participated in our draft Revenue Proposal webinar (32 participants), Transmission Network Forum (more than 240 participants) and Insurance Deep Dive (15 participants);
- proactively contacting key regional advocacy and economic bodies to invite them to engagement opportunities;
- 20 one-on-one briefings with directly-connected customers who operate across Queensland on, for example, transmission pricing arrangements;
- the Revenue Proposal was included as part of broader briefings with more than 20 local governments (Mayors and CEOs), with more detailed briefings offered;
- to seek insights on key issues from landholders and local governments through a Stakeholder Perception Survey, undertaken independently by Deloitte on an annual basis;
- promotion of key information and engagement opportunities through our social media channels and website; and
- provision of information and promotion of engagement opportunities through the communication networks of key advocacy groups, for example QFF and EUAA.

Figure 3.3 provides a map which outlines the location or geographic areas represented by customers and stakeholders across Queensland that we engaged with in the development of our 2023-27 Revenue Proposal. As a guide, the larger the circle, the greater the number of stakeholders involved in engagement from that area.

Figure 3.3: Breadth of engagement map



### 3.6 Engagement activities

We based our engagement activities on feedback from customers and stakeholders at the Revenue Proposal co-design workshop in May 2019 and leveraged off existing business-as-usual engagement avenues as much as possible.

Insights from the workshop included:

- our business-as-usual Customer Panel should play a primary engagement role;
- publish early forecasts approximately six months in advance of the Revenue Proposal to provide greater visibility and opportunity for comment;
- undertake one-on-one briefings with directly-connected customers and target stakeholder groups;
- raise customer and stakeholder understanding of the transmission industry, including the regulatory environment;
- deep dives should focus on large, complex or contentious topics that have the greatest potential to impact MAR and for which the business has not yet made a decision;
- test interest in hosting engagement forums in regional locations;
- use webinars and Powerlink’s website to make information easily accessible despite geographic location;

- establish a microsite or dedicated section on Powerlink's website to educate and facilitate interactive feedback and discussion; and
- investigate site tours to allow customers and stakeholders to learn about Powerlink's operations.

Key engagement activities undertaken in the development of our 2023-27 Revenue Proposal are summarised in Table 3.5.

Table 3.5: Key engagement activities

| Activity                       | Description  |
|--------------------------------|--|
| Customer Panel meetings        | <p>The Customer Panel has played a key role in engagement on a range of important aspects in the development of our Revenue Proposal. Our goal was to gain agreement on these aspects from panel members to ensure the Revenue Proposal was capable of acceptance.</p> <p>The Customer Panel also held meetings in October 2020 and December 2020 without any Powerlink representatives. The first meeting was a discussion on the Panel's submission to our draft Revenue Proposal. The second evaluated our engagement approach and discussed capable of acceptance criteria and assessment.</p>   |
| RPRG meetings                  | <p>The RPRG met every four to six weeks from October 2019 to December 2020 for detailed discussions on items identified in the engagement scope. Meetings were typically two to four hours in length and detailed information was provided prior to the majority of meetings, all of which has been made public on our website<sup>(1)</sup>. RPRG members then reported back to the wider Customer Panel on the focus areas and outcomes of those discussions. Specific topics discussed with the RPRG are outlined in the engagement timeline in Section 3.7.</p>  |
| Draft Revenue Proposal         | <p>In response to customer feedback, we published a draft Revenue Proposal on 30 September. This is discussed further in Section 3.2.</p> <p>A formal one month submission period allowed customers and stakeholders to provide feedback on our draft Revenue Proposal. We provided a template to guide customer input. Submissions received have been published on our website and included in Appendix 3.02 Submissions on our draft Revenue Proposal.</p> <p>Feedback has had a direct influence on our Revenue Proposal, in particular, in relation to our capital expenditure forecast and capable of acceptance criteria (refer Section 3.8).</p>  |
| Draft Revenue Proposal webinar | <p>A webinar was held in October 2020 to allow customers and wider stakeholders to gain a better understanding and provide feedback on our draft Revenue Proposal. In total, 32 participants joined the webinar. A recording of the webinar and associated material was made available in full on our website. Customers heard from and were able to ask questions directly of our Chief Executive and other members of our Executive Team and staff during this session.</p>  |
| PPFP                           | <p>In early August 2020, we released a Preliminary Positions and Forecasts Paper (PPFP) to provide customers and stakeholders with a more detailed update on our Revenue Proposal forecasts at that stage of development, and drivers of our capital and operating expenditure. This information was shared with more than 200 stakeholders and customers, and we encouraged feedback on the PPFP.</p>   |
| Transmission Network Forum     | <p>We hold our Transmission Network Forum in September each year with close to 200 attendees from across Government, industry, customer groups, regulators and consumer advocates.</p> <p>In 2019, a dedicated exhibition at the forum shared our early thinking and sought views on our capital expenditure approach and proposed engagement activities.</p> <p>In 2020, due to COVID-19, the forum was held virtually with more than 240 attendees. A dedicated presentation outlined key drivers of our Revenue Proposal. We invited a wider range of customers and stakeholders, particularly regional representatives, to be involved in engagement post the release of the draft Revenue Proposal and provide submissions on the document.</p>   |
| Insurance deep dive            | <p>We held a deep dive session in November 2020 on our approach to managing risk and cost trade-offs associated with insurance. This deep dive concentrated on the challenge of managing potential increases to our insurance premiums in the 2023-27 regulatory period, which is discussed further in Chapter 6 Forecast Operating Expenditure. Customers were able to hear from and ask questions of our Chief Financial Officer, who is responsible for our insurance program, and provide their views on appropriate levels of risk and cost trade-offs related to insurance. A summary of this session is published on our website<sup>(2)</sup>.</p> <p>While we did not specifically refer to them as deep dives, we consider that engagement with our RPRG and Customer Panel to be deep across a range of topics as part of each meeting. These topics are summarised in Section 3.8.</p> |

| Activity                          | Description   |
|-----------------------------------|---|
| One-on-one briefings              | All directly-connected customers were offered a one-on-one briefing. Twenty briefings occurred either as part of our consultation with directly-connected customers on transmission pricing or specifically on elements of our Revenue Proposal.  |
| Regional engagement               | <p>It was important to provide regional stakeholders with an opportunity to participate in our engagement process. Our master stakeholder list of more than 450 contacts included regional representatives who were sent relevant information and invited to participate in engagement activities. Key regional representatives were contacted to encourage participation in major engagement activities.</p> <p>Approximately 60 attendees at our 2020 Transmission Network Forum represented regional areas. We have also hosted targeted online forums to allow a range of stakeholders from across Queensland to ask questions and provide input. We provided high level briefings to 20 local governments across Queensland including Cairns, Isaac, Mackay and North Burnett.</p>   |
| Digital engagement                | We established a dedicated section on our website as a central point of information on our Revenue Proposal for customers and stakeholders. It has also provided a digital platform for interactive feedback. Interested parties were able to subscribe to this page to receive notification of information updates. All Customer Panel and RPRG presentations, pre-reading and meeting minutes and webinar recordings are publicly available on our website.   |
| Formal research                   | <p>We sought customer and stakeholder insights through formal research, namely a dedicated annual Stakeholder Perception Survey undertaken independently by Deloitte which involved 115 stakeholders and customers in 2020. Our 2020 survey results show ongoing support for our broader engagement approach and social licence to operate. The survey also asked specific questions about engagement on our Revenue Proposal, which contributed toward our evaluation outcomes discussed in Section 3.9.</p> <p>Each year Powerlink also partners with Energy Queensland on the Queensland Household Energy Survey. This survey captures the views of more than 5,000 Queensland households on areas including energy consumption patterns, uptake of solar and new technologies and sentiment towards energy companies. We use this information to inform our network planning.</p> |
| Informal discussions and feedback | Throughout the process we sought regular informal feedback and responded to questions and emails from customers, stakeholders, the AER and the AER's CCP23. We responded to queries and coordinated responses and discussions with groups of interested customers and stakeholders where relevant.  |

(1) 2023-2027 Regulatory Period, Powerlink, <https://www.powerlink.com.au/2023-27-regulatory-period>.

(2) Insurance Deep Dive Overview, 13 November 2020, Powerlink, <http://www.powerlink.com.au/2023-27-regulatory-period>.



### 3.8 How feedback influenced our decision-making

We genuinely considered all input and feedback from customers and stakeholders. The key topics discussed, feedback received and how that feedback influenced our decision-making is summarised in Table 3.6.

Information has been grouped by the following topics:

- general and engagement;
- capital expenditure;
- operating expenditure;
- financials;
- STPIS; and
- transmission pricing.

The date provided reflects key times when topics were discussed in detail with the RPRG or Customer Panel. It is not intended to reflect every time these topics were discussed. Topics are presented in reverse chronological order (i.e. most recent topics discussed are first).

Table 3.6: How feedback influenced decision-making

| Topic   | Feedback received  | What we've done  |
|---|--|--|
| <b>General topics and engagement</b>                          |  |  |
| Capable of acceptance goal (December 2020 and September 2020) | <ul style="list-style-type: none"> <li>• Customers suggested adopting the criteria proposed by CCP24 in the context of Australian Gas Networks (AGN) 2020 Access Arrangement in June 2020 to assess whether capable of acceptance has been met.</li> <li>• The AER and CCP23 also suggested considering the AER's Framework for Considering Consumer Engagement, published in September 2020, as the criteria for capable of acceptance<sup>(1)</sup>.</li> </ul>    | <ul style="list-style-type: none"> <li>• We originally proposed using the CCP24 criteria in our draft Revenue Proposal.</li> <li>• The Framework for Considering Consumer Engagement was released after the CCP24 criteria and we consider it constructively built on the original criteria suggested by CCP24.</li> <li>• We adopted the criteria in the Framework for Considering Consumer Engagement and provide a self-assessment against this criteria in Section 3.2.</li> </ul> |
| Draft Revenue Proposal (June 2020)                            | <ul style="list-style-type: none"> <li>• Customers strongly encouraged us to publish a draft Revenue Proposal by September 2020.</li> </ul>  | <ul style="list-style-type: none"> <li>• We published a draft of our Revenue Proposal in September 2020. This was not in our original plans given we had planned to release at least three sets of forecasts publically as our Revenue Proposal was being developed (refer Section 3.2).</li> </ul>  |
| COVID-19 impacts (May 2020 and April 2020)                    | <ul style="list-style-type: none"> <li>• Customers asked about the impacts of COVID-19 on our Revenue Proposal.</li> <li>• Customers supported maintaining the existing timeline for lodgement of our Revenue Proposal.</li> <li>• We received feedback that RPRG and Customer Panel meetings should be shortened and be more targeted, if possible.</li> <li>• Customers asked how we are planning to continue engagement given the impacts of COVID-19.</li> </ul> | <ul style="list-style-type: none"> <li>• We maintained our existing timeline for the preparation and lodgement of our Revenue Proposal.</li> <li>• We held virtual meetings to adjust to the impacts of COVID-19. These meetings were shortened and more targeted.</li> <li>• We have provided clarity about the impact of COVID-19 on our capital and operating expenditure in our draft Revenue Proposal and in our Revenue Proposal.</li> </ul>                                     |
| Risk appetite (March 2020)                                    | <ul style="list-style-type: none"> <li>• Customers asked for insight into the risk appetite and approach of our Board.</li> </ul>  | <ul style="list-style-type: none"> <li>• Our Board Chair, Kathy Hirschfeld, outlined and answered questions on our risk profile, risk management policies and controls at the March 2020 RPRG meeting.</li> </ul>  |
| Business Narrative (December 2019 and October 2019)           | <ul style="list-style-type: none"> <li>• First draft did not reference impacts of climate change.</li> <li>• Need to clarify the target audience for the narrative.</li> <li>• Explain how factors will impact Revenue Proposal and customers.</li> <li>• Customer section needs to focus on more than just affordability. It should also focus on how customers will be empowered in their energy use as part of the transition.</li> </ul>                         | <ul style="list-style-type: none"> <li>• Several versions of our Business Narrative were circulated to the RPRG and Customer Panel with feedback incorporated into the updated Business Narrative (e.g. more explicit discussion of risks, the environment and defining the document's intended target audience).</li> </ul>   |

| Topic  | Feedback received   | What we've done   |
|--|---|---|
| <b>Capital expenditure</b>   |   |   |
| Affordability and our overall capital expenditure forecast (December 2020, November 2020)              | <ul style="list-style-type: none"> <li>In response to our draft Revenue Proposal, customers were concerned about the proposed 12% increase in capital expenditure from the current regulatory period and its impact on customer affordability.</li> </ul>   | <ul style="list-style-type: none"> <li>Since our draft Revenue Proposal, we have continued to focus on how we can more prudently and efficiently manage the network while continuing to deliver safe, secure, reliable and cost-effective electricity transmission services.</li> <li>We have reduced our total forecast capital expenditure and proposed a 3% real reduction in capital expenditure from the current regulatory period (refer Chapter 5 Forecast Capital Expenditure).</li> </ul>  |
| Contingent reinvestment projects (December 2020, January 2020)   | <ul style="list-style-type: none"> <li>There was initial support from customers for the concept of contingent reinvestment projects for those investments that may have significant uncertainty around need, timing and cost.</li> <li>While the RPRG and the AER's CCP23 were supportive of the concept as a way to balance risks between consumers and Powerlink, their feedback on our draft Revenue Proposal was to not support using the existing contingent project framework.</li> <li>The AER raised concerns with regards to asset condition triggers and the potential for contingent reinvestments to move away from an incentive-based to more of a cost-of-service regulatory approach.</li> </ul> | <ul style="list-style-type: none"> <li>We decided not to pursue contingent reinvestment projects in our Revenue Proposal (refer Chapter 5 Forecast Capital Expenditure).</li> <li>We still consider that this concept has merit and may pursue this outside the Revenue Proposal process.</li> </ul>  |
| Hybrid+ capital expenditure forecasting methodology and scenario analysis (October 2020, October 2019) | <ul style="list-style-type: none"> <li>Customers recognised the challenges of pursuing a full bottom-up forecast and the reasons for our Hybrid+ approach.</li> <li>There was broad support for our Hybrid+ approach as striking a reasonable balance between bottom-up and top-down forecasts at our October 2019 RPRG meeting.</li> <li>Our Customer Panel and the AER's CCP23 were interested in understanding the amount of top-down and bottom-up analysis undertaken and the extent to which scenario analysis has contributed to our forecasts.</li> </ul>   | <ul style="list-style-type: none"> <li>We adopted the Hybrid+ model to forecast capital expenditure.</li> <li>We have provided further information in Chapter 5 Forecast Capital Expenditure on the extent of our top-down and bottom-up analysis.</li> <li>Scenario analysis has not been undertaken specifically for our Revenue Proposal. However, it contributes to the development of business-as-usual documents such as our Transmission Annual Planning Report (TAPR) and Asset Management Plans, which are provided as supporting documents to our Revenue Proposal.</li> </ul>  |
| Business Information Technology (IT) (June 2020)   | <ul style="list-style-type: none"> <li>Customers had direct input into the development of our new IT Benefits Realisation Framework. Feedback focused on the criteria and metrics to support IT investment.</li> <li>Based on the forecast capital expenditure provided, the RPRG and Customer Panel did not request deeper engagement on Business IT.</li> <li>AER requested additional IT investment cases to be provided.</li> </ul>   | <ul style="list-style-type: none"> <li>We presented our final IT Benefits Realisation Framework to the Customer Panel in February 2020, which incorporated their feedback.</li> <li>We published a draft business IT investment case with our draft Revenue Proposal in September 2020.</li> <li>Seven IT investment cases are provided as part of our Revenue Proposal.</li> <li>We considered sharing a business IT post-implementation review prior to Revenue Proposal lodgement, noting the Benefits Realisation Framework is newly developed. However, this was not achievable in the timeframe and we will consider this for discussion post-lodgement.</li> </ul> |

| Topic  | Feedback received   | What we've done   |
|--|---|---|
| Replacement expenditure (Repex) model (March 2020)                           | <ul style="list-style-type: none"> <li>Customers and AER staff wanted to ensure the Repex Model did not double-count expenditure included within bottom-up forecasts.</li> <li>Customers asked us to provide additional evidence on age profiles of transmission towers (including by corrosion zone) and historical trend information on tower reinvestments.</li> </ul>   | <ul style="list-style-type: none"> <li>We reviewed inputs into the Repex Model and our approach to integrating the top-down and bottom-up elements. This verified that our approach will not result in expenditure being double-counted.</li> <li>Transmission tower age profiles and historical trend information has been published with the Repex Model and associated input data files.</li> </ul>  |
| Integrated System Plan (ISP) projects (various dates)                        | <ul style="list-style-type: none"> <li>Customers are interested in how the Queensland/New South Wales Interconnector (QNI) Medium project and associated easement acquisition will be treated in the Revenue Proposal.</li> <li>Of particular interest is how cost estimates for ISP projects were developed for the 2020 ISP.</li> </ul>   | <ul style="list-style-type: none"> <li>We had discussions with interested customers on the costs associated with the QNI Medium project.</li> <li>We have proposed \$14.3m to acquire new easements required for the QNI Medium upgrade (refer Chapter 5 Forecast Capital Expenditure).</li> </ul>  |
| <b>Operating expenditure</b>   |   |   |
| Affordability and our overall operating expenditure forecast (various dates) | <ul style="list-style-type: none"> <li>Customers stated that affordability was a key issue and encouraged us to take proactive steps in our operating expenditure forecast to address affordability.</li> <li>Our Customer Panel and the AER's CCP23 welcomed our no real growth in operating expenditure forecast in their draft Revenue Proposal response.</li> </ul>   | <ul style="list-style-type: none"> <li>We have heard customer feedback on business productivity, affordability and the impacts of the current economic climate. Based on this feedback we have committed to pursue a target of no real growth in operating expenditure.</li> <li>We have set a 0.5% productivity target, which is above the industry average, and proposed no step changes. The combination of real productivity growth above the industry average and no proposed step changes reflects our commitment to customers to target no real growth in operating expenditure.</li> </ul>  |
| Benchmarking (December 2020, December 2019)                                  | <ul style="list-style-type: none"> <li>Customers want to see us make genuine improvements in capital and operating expenditure rather than just target improvements to look good on 'the beauty parade'.</li> <li>Customers acknowledged that changes to certain inputs can have a material impact on benchmarking results without improving outcomes for customers<sup>(2)</sup>.</li> <li>Customers wanted to see operating expenditure performance against key metrics.</li> </ul> | <ul style="list-style-type: none"> <li>We focused on pursuing changes that provide genuine benefits to customers and not changes that may improve benchmarking but with no real customer benefit. This was outlined in our February 2020 RPRG meeting.</li> <li>We provided feedback to AER staff on the benchmarking model, in particular that our 2019 zero unserved energy result may materially impact the function of the benchmarking model and our overall result.</li> <li>We have included operating expenditure performance against key metrics in Chapter 6 Forecast Operating Expenditure.</li> </ul>   |
| Productivity (October 2020, December 2019)                                   | <ul style="list-style-type: none"> <li>Customers encouraged us to drive a higher operating expenditure productivity target than the industry trend.</li> <li>Customers sought further detail on planned productivity initiatives.</li> <li>Customers asked if we could develop a forecast of our productivity performance for the 2023-27 regulatory period.</li> </ul>   | <ul style="list-style-type: none"> <li>Based on customer feedback and recognition of the current economic environment, we have adopted a customer-focused strategy to pursue a target of no real growth in total operating expenditure.</li> <li>As a result, we have proposed a productivity factor of 0.5% per annum in combination with no step changes (refer Chapter 6 Forecast Operating Expenditure).</li> <li>Appendix 6.02 Operating Expenditure Productivity Approach and Potential Initiatives provides further information on initiatives that may be implemented to improve our productivity.</li> <li>We have provided metrics of our operating expenditure and a forecast of our operating expenditure partial factor productivity in Chapter 6 Forecast Operating Expenditure.</li> </ul> |

| Topic                                      | Feedback received  | What we've done   |
|--|--|---|
| Base year<br>(November 2020, October 2020) | <ul style="list-style-type: none"> <li>Customer feedback was the choice of 2018/19 as the base year appeared reasonable. There was a query as to whether using a base year closer to 2022/23 would be considered.</li> <li>Customers requested a copy of the HoustonKemp report into the efficiency of Powerlink's base year prior to the Revenue Proposal being lodged.</li> </ul>  | <ul style="list-style-type: none"> <li>We retained 2018/19 as our base year as it is reflective of a typical year of operations (i.e. without the potential uncertainties and inconsistencies in expenditure associated with COVID-19 (refer Chapter 6 Forecast Operating Expenditure).</li> <li>Our Customer Panel, the AER and the AER's CCP23 were provided an advance copy of HoustonKemp's report on 1 December 2020.</li> </ul>   |
| Insurance<br>(November 2020, June 2020)    | <ul style="list-style-type: none"> <li>Customers recognise and are concerned by increases in insurance premiums across the energy sector.</li> <li>Customers want to understand the drivers of the increase in insurance premiums and what steps can be taken to manage risk and costs.</li> <li>Customers requested further information on how we will manage the balance between premiums, self-insurance and cost pass throughs.</li> <li>At our insurance deep dive session, customers asked us to determine if cost savings could be generated by gaining different levels of insurance cover for network assets based on their geographic location. Due to the fluid nature of insurance, customers asked for greater visibility of the yearly renewal process.</li> </ul> | <ul style="list-style-type: none"> <li>We arranged for our insurance brokers, Marsh, to provide an overview of the hardening insurance market and drivers for this (e.g. increasing volume of claims due to economic downturn and natural disasters).</li> <li>We decided to change our forecasting approach to insurance and have included it in our base year due to the uncertainty in the market (refer Chapter 6 Forecast Operating Expenditure).</li> <li>We will continue to review our insurance coverage and consider the trade-offs between costs and risks to seek a reasonable balance for customers and Powerlink.</li> <li>We committed to engaging with our Customer Panel within period to discuss material changes in insurance costs and any pass through applications prior to lodgement with the AER, if any.</li> </ul>  |
| Step changes<br>(February 2020)            | <ul style="list-style-type: none"> <li>Customers were interested in how potential step changes were identified and which ones would not be pursued.</li> <li>Customers asked what the legislative/regulatory drivers were and how can we engage with regulators and government to reduce cost impacts.</li> <li>Customers asked how they could assist with the engagement with government.</li> <li>Customers asked whether the operating expenditure forecast includes the AEMO National Transmission Planner (NTP) Fee.</li> </ul>   | <ul style="list-style-type: none"> <li>We initially identified 27 potential step changes.</li> <li>After further engagement and consideration, we decided not to proceed with any step changes in combination with a revised productivity forecast to achieve our target of no real growth in operating expenditure (refer Chapter 6 Forecast Operating Expenditure and Appendix 6.03 Operating Expenditure Step Changes Approach). We will endeavour to manage and absorb potential costs associated with step changes as part of our forecast operating expenditure for the 2023-27 regulatory period.</li> <li>A key reason for this was to reduce the impact on operating expenditure to drive customer affordability in the current economic environment.</li> <li>Consistent with the Rules<sup>(3)</sup>, AEMO NTP fees are applied outside the revenue determination process (refer Chapter 6 Forecast Operating Expenditure).</li> </ul> |
| Cyber security<br>(February 2020)          | <ul style="list-style-type: none"> <li>Customers want to understand the costs of our cyber security program (capital and operating expenditure) and our intended approach.</li> </ul>  | <ul style="list-style-type: none"> <li>We include information in Chapter 5 Forecast Capital Expenditure and Chapter 6 Forecast Operating Expenditure on cyber security.</li> <li>Consistent with our target of no real growth in operating expenditure and due to the uncertainty associated with costs and obligations, we decided not to pursue an operating expenditure step change for cyber security.</li> </ul>   |

| Topic  | Feedback received  | What we've done   |
|--|--|---|
| <b>Financials</b>  |  |   |
| Inflation<br>(November 2020, July 2020)                                | <ul style="list-style-type: none"> <li>Customers sought clarification on how different treatments of inflation can impact revenue (e.g. the difference between trimmed mean and headline inflation).</li> <li>Customers requested an indication of the impact of the change in inflation approach proposed as part of the AER's Inflation Review<sup>(4)</sup>.</li> </ul>   | <ul style="list-style-type: none"> <li>We intend to publish an overview document on our website to explain how inflation is captured and how it can impact revenue under the regulatory framework.</li> <li>We have included a forecast of the impact of the new inflation approach in Chapter 9 Rate of Return, Taxation and Inflation.</li> </ul>   |
| AER feedback on Revenue Proposal models<br>(September 2020, July 2020) | <ul style="list-style-type: none"> <li>We provided the AER with early versions of our key Revenue Proposal models (e.g. Post-Tax Revenue Model (PTRM), Roll Forward Model (RFM), EBSS, CESS, Operating expenditure, Capital expenditure and Repex models) and the AER provided useful input to guide our use of the models.</li> </ul>   | <ul style="list-style-type: none"> <li>We made adjustments to the models where required and clarified points on each of these to ensure they are capable of acceptance.</li> </ul>  |
| Year-by-year depreciation tracking approach<br>(June 2020)             | <ul style="list-style-type: none"> <li>Customers acknowledged the change to the year-by-year depreciation tracking approach is more accurate over time.</li> <li>We were asked to investigate whether the transitional impacts of this change in approach (i.e. higher revenue) could be mitigated/smoothed.</li> <li>Customers asked whether the Queensland Audit Office (QAO) supported this approach.</li> </ul>  | <ul style="list-style-type: none"> <li>We investigated options to smooth the transitional impact and have proposed to manage this by a minor change to asset lives for existing secondary systems assets at 30 June 2017. This smooths the revenue impact on customers between the 2023-27 and 2028-32 regulatory periods. We have adopted this approach (refer Chapter 10 Depreciation).</li> <li>Depreciation tracking is a forecasting approach in the regulatory framework. It does not require QAO sign off, therefore we have not sought their input on the approach.</li> </ul>  |
| Proposed revenue smoothing<br>(February 2020, December 2019)           | <ul style="list-style-type: none"> <li>Customers raised concerns that after the 2023-27 regulatory period, prices could materially increase if our rate of return increased.</li> <li>Customers provided initial support for us to undertake further analysis to gain a better understanding of alternative ways to potentially smooth the impact of subsequent rate of return increases on prices.</li> </ul>   | <ul style="list-style-type: none"> <li>We decided not to progress this due to challenges in relation to potential changes that may be required to the Rules, regulatory risks and overall minimal customer benefits that were forecast to result.</li> <li>RPRG members supported our position. The RPRG acknowledged our efforts to explore a 'new way of doing things' but agreed that the associated complexities were not likely to result in material benefits for customers.</li> </ul>   |
| <b>Service Target Performance Incentive Scheme (STPIS)</b>             |  |   |
| STPIS review<br>(January 2020)   | <ul style="list-style-type: none"> <li>Customers supported our proposal for the AER to review the STPIS<sup>(6)</sup>.</li> <li>Customers were keen to ensure that the STPIS appropriately incentivised improvements in network performance to benefit market participants and customers.</li> <li>As part of feedback on the draft Revenue Proposal, customers deferred to the AER in relation to a decision on STPIS. The AER's CCP23 indicated they did not feel there was a reason to change the STPIS.</li> </ul> | <ul style="list-style-type: none"> <li>We coordinated input from all other Transmission Network Service Providers (TNSPs) on the operation and a potential review of the current STPIS scheme.</li> <li>We lodged a request and supporting information with the AER in January 2020 to review the STPIS.</li> <li>The AER notified Powerlink in August 2020 that it does not consider that a review of STPIS is necessary at this time.</li> <li>We remain firmly of the view that the STPIS should be reviewed in light of the significant and rapid changes in the energy market, to ensure it remains fit-for-purpose and continues to promote the long-term interests of consumers (refer Chapter 15 Service Target Performance Incentive Scheme).</li> </ul> |

| Topic                                | Feedback received   | What we've done  |
|--------------------------------------|---|--|
| <b>Transmission Pricing</b>          |   |  |
| Transmission Pricing (various dates) | <ul style="list-style-type: none"> <li>Broadly, customers supported providing stronger pricing signals to encourage more efficient use of the network, driving lower future network costs.</li> <li>Detailed feedback on other aspects of our Transmission Pricing Consultation is provided in Chapter 16 Pricing Methodology.</li> </ul> | <ul style="list-style-type: none"> <li>As a result of our Transmission Pricing Consultation we proposed one amendment to our existing Pricing Methodology. The proposal is to progressively move to locational charges being based on peak demand only.</li> <li>Our response to customer feedback is detailed further in Chapter 16 Pricing Methodology.</li> </ul> |

- (1) Overview, Section 3, Table 7 in the Draft Decisions for AusNet Services, Jemena, United Energy, CitiPower and Powercor, Australian Energy Regulator, September 2020.
- (2) Minutes of the Revenue Proposal Reference Group (RPRG), Powerlink, December 2019, <https://www.powerlink.com.au/2023-27-regulatory-period>.
- (3) National Electricity Rules, clause 6A.23.3(e)(6).
- (4) Regulatory Treatment of Inflation, Australian Energy Regulator, December 2020.
- (5) Minutes of the RPRG January 2020 meeting, Powerlink, <https://www.powerlink.com.au/2023-27-regulatory-period>.

### 3.9 Engagement evaluation

We gained qualitative and quantitative data on our engagement approach. This was done through a range of mechanisms including a survey of Customer Panel members, a dedicated session on engagement evaluation with the RPRG and a Customer Panel meeting without Powerlink representatives present to allow panel members to evaluate our engagement. We also provided opportunities for customers and stakeholders to give feedback before, during and after participation in key engagement activities.

Throughout the development of our Revenue Proposal we regularly asked participants for input and feedback on the effectiveness of engagement to ensure alignment with their expectations.

#### 3.9.1 Quantitative engagement evaluation

Our Engagement Plan, included in Appendix 3.01, provides a set of Key Performance Indicators (KPIs). We engaged with our customers on these prior to their finalisation. The KPIs, our method of evaluation and evaluation outcomes are outlined in Table 3.7.

Table 3.7: Evaluation KPIs and outcomes

| KPI   | Target  | Measurement techniques used   | Evaluation outcome  |
|---|---|---|---|
| Effectiveness and quality of information provided to stakeholders   | Overall satisfaction rating of 7/10 for quality of information provided.                                  | <ul style="list-style-type: none"> <li>Pulse check surveys.</li> <li>Informal debriefs.</li> </ul>  | <ul style="list-style-type: none"> <li>Customer Panel members rated quality of information at 8.5/10 (refer to Appendix 3.05 Customer Panel Evaluation Survey)<sup>(1)</sup>.</li> <li>Informal feedback during RPRG and Customer Panel meetings indicated the information provided for meetings was appropriately detailed to enable meaningful engagement.</li> </ul> |
| Stakeholders were engaged at appropriate level on the IAP2 spectrum | Identified that majority of stakeholders had appropriate level of influence on Powerlink decision-making. | <ul style="list-style-type: none"> <li>Survey/solicit feedback from external stakeholders.</li> <li>Internal review.</li> <li>Peer review/audit.</li> </ul> | <ul style="list-style-type: none"> <li>Customer Panel members rated their ability to influence decision-making at 7.5/10 (refer to Appendix 3.05 Customer Panel Evaluation Survey).</li> </ul>  |

| KPI   | Target  | Measurement techniques used   | Evaluation outcome   |
|---|---|---|--|
| Satisfaction level of stakeholders with engagement activities                             | An overall satisfaction rating of 7/10 for engagement activities.   | <ul style="list-style-type: none"> <li>Formal research.</li> <li>Post-activity satisfaction surveys.</li> <li>Informal debriefs and feedback.</li> </ul>    | <ul style="list-style-type: none"> <li>70% of participants (wider than Customer Panel members) were either satisfied or very satisfied with the engagement approach (refer to Appendix 3.06 2020 Stakeholder Perception Survey Summary).</li> <li>Customer Panel members rated the effectiveness of engagement at 8.26/10 (refer to Appendix 3.05 Customer Panel Evaluation Survey).</li> <li>Participants at the 2020 Transmission Network Forum gave an overall satisfaction rating of 83% for the event (refer to Appendix 3.07 Transmission Network Forum Participant Feedback Summary 2020).</li> <li>The Customer Panel Statement on Engagement (refer to Appendix 3.03) indicated our engagement approach has been genuine, consistent and deep.</li> </ul> |
| Impact of engagement on Powerlink decision-making and quality of feedback/ input received | Ability to demonstrate what changed as a result of engagement.  | <ul style="list-style-type: none"> <li>Survey/solicit feedback from external stakeholders.</li> <li>Internal review.</li> <li>Peer review/audit.</li> </ul> | <ul style="list-style-type: none"> <li>Significant elements of Powerlink's Revenue Proposal were changed directly as a result of customer feedback (refer to Table 3.6).</li> <li>The Customer Panel Statement on Engagement (refer to Appendix 3.03) identified a number of cases where their input had influenced our Revenue Proposal. Panel members described the level of influence as high relative to other engagement processes in the industry.</li> </ul>  |
| Timely delivery of engagement program   | Engagement program delivered on-schedule.   | <ul style="list-style-type: none"> <li>Internal monitoring.</li> </ul>  | <ul style="list-style-type: none"> <li>Key engagement milestones were delivered on schedule. In addition, we published a draft Revenue Proposal which was unplanned, in response to feedback from customers (refer Section 3.2).</li> </ul>  |
| Improvement in social licence to operate score and reputation scores                      | Improvement on 2018 social licence to operate and reputation scores, and positive verbatim feedback regarding revenue determination process engagement. | <ul style="list-style-type: none"> <li>Formal research via the Deloitte Stakeholder Perception Survey.</li> </ul>   | <ul style="list-style-type: none"> <li>Positive feedback received on our engagement approach by Customer Panel and AER CCP23<sup>(2)</sup>.</li> <li>Our social licence to operate score has improved in both 2019 (4.01) and 2020 (4.03) and our reputation remained high in both 2019 (4.03) and 2020 (3.78) (refer to Appendix 3.06 2020 Stakeholder Perception Survey Summary). These are measures of reputation and social licence to operate beyond just our Revenue Proposal engagement process.</li> </ul>   |

(1) Note this survey was done on a 1-5 scale and results have been calculated on a 1-10 basis.

(2) Appendix 3.02 Submissions on our draft Revenue Proposal and Appendix 3.03 Customer Panel Statement on Engagement.

### 3.9.2 Qualitative engagement evaluation

We have relied on four main sources of qualitative feedback to inform our Revenue Proposal and evaluate the effectiveness of our engagement approach. These are:

- our Customer Panel's Statement on Engagement (Appendix 3.03) from December 2020;
- feedback from our RPRG at the December 2020 meeting;
- our Customer Panel's submission on our draft Revenue Proposal (Appendix 3.02); and
- the AER CCP23's submission on our draft Revenue Proposal (Appendix 3.02) and feedback at the December 2020 RPRG meeting.

We have not sought to replicate all qualitative feedback received via the sources above in our Revenue Proposal. We have included in Table 3.8 some verbatim key statements from both the Customer Panel and AER CCP23 that support our engagement approach and discussed areas for improvement in Section 3.9.3.

Table 3.8 Qualitative statements on our engagement approach

| Source  | Statements  |
|---|---|
| Customer Panel Statement on Engagement  | The panel are unanimous in our view that the Powerlink's engagement with us has been genuine, consistent and deep. We also acknowledge the consistent high-level efforts of Powerlink staff to ensure that they engage meaningfully with us.<br>Their [the Customer Panel's] level of influence was higher relative to other engagement processes in the industry.  |
| RPRG comments from the December 2020 meeting  | The engagement has been genuine, transparent and quite focused. I think we could certainly classify the engagement with the RPRG as deep engagement.<br>I think that we can point to examples where views that have been expressed by RPRG members and Customer Panel members have strongly influenced the proposal.<br>I want to comment on how successful your original intentions were around the co-design process and how we sort of went bravely into this process we've used and I think it's been a success.<br>You seek to have engagement to help understanding and to inform and to increase transparency. The deep dives have been terrific.<br>I really do feel it's been genuine. That it's been open and very authentic. |
| Customer Panel submission to our draft Revenue Proposal   | Powerlink's engagement to date has been genuine and open. We have been afforded regular opportunities to provide feedback on the plans as they have progressed through several iterations, and our views have been recorded and taken into account.   |
| AER CCP23 submission to our draft Revenue Proposal and feedback at the December 2020 RPRG meeting | We consider that Powerlink's engagement approach to date has been appropriate and has provided high-quality input for Powerlink's consideration.<br>The iterative approach applied by Powerlink means that engagement influence has been observable over time and culminating, at this stage in the draft Revenue Proposal.<br>With engagement across the board with networks, the bar is getting higher and higher. Powerlink is at the forefront of raising the bar on consumer engagement.<br>Powerlink is right up there with how you build trust. Well done.   |

### 3.9.3 Continuous improvement on engagement

We take a continuous improvement approach to our engagement activities. While our engagement on the Revenue Proposal overall has generally been well received by customers and stakeholders, feedback has also identified areas where we could improve, which we welcome.

These improvement areas are also primarily derived from the same four sources of qualitative feedback noted in Section 3.9.2 and grouped in the following topics:

- breadth of engagement – provide more evidence of engagement with wider customers and stakeholders, engage more broadly across Queensland and demonstrate how engagement with those outside the Customer Panel has influenced decision-making;
- investigate greater diversity and succession planning for the Customer Panel;
- provide more face-to-face engagement opportunities for regional stakeholders; and
- share wider information from across the industry to provide greater context for engagement activities.

To continue to deliver for customers and stakeholders, we commit to reviewing our engagement approach with consideration to the above feedback to ensure it aligns with customer expectations.

### 3.10 Summary

This chapter outlines Powerlink's customer engagement activities and how they influenced and improved decision-making in the preparation of our 2023-27 Revenue Proposal. It highlights that we have undertaken extensive engagement with our customers, stakeholders, the AER's Consumer Challenge Panel (CCP23) and AER staff on all key elements of our Revenue Proposal.

This engagement occurred as part of our overarching goal to deliver a Revenue Proposal that is capable of acceptance by our customers, the AER and ourselves. The input we received from our engagement activities has directly shaped our Revenue Proposal.